

Message Text

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PAGE 01 STATE 082802

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TO AMEMBASSY WARSAW IMMEDIATE

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SUBJECT: PL-480 ANNUITY NEGOTIATIONS

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1. PROJECTION OF DOLLAR SIZE OF ANNUITY FLOW CONTAINED IN DEPARTMENT'S JANUARY 31, 1975 OPTIONS PAPER (TABLE 2) WERE BASIS FOR CALCULATION OF \$34 MILLION TOTAL FLOW FROM JULY 1975 THRU JUNE 1978. IN DISCUSSING THIS QUESTION WITH POLES, HOWEVER, YOU SHOULD DRAW ON INFORMATION BELOW WHICH INCORPORATES MORE RECENT DATA.

2. NEW FIGURES NOW AVAILABLE TO DEPARTMENT INDICATE DOLLAR ANNUITY FLOW (MEASURED AS TWELVE TIMES THE JANUARY MONTHLY FLOW) HAS INCREASED FROM \$3.1 MILLION IN FY1969 TO \$8.2 MILLION IN FY1975. THE AVERAGE ANNUAL INCREASE IN THE BENEFIT FLOW OVER THIS PERIOD HAS THEREFORE BEEN ROUGHLY 18.5 PERCENT.

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PAGE 02 STATE 082802

3. A SIMPLE STRAIGHT LINE PROJECTION OF THIS 18.5 PERCENT

TREND YIELDS A GROSS BENEFIT FLOW OF \$9.73 MILLION IN FY1976, \$11.53 MILLION IN FY1977, AND \$13.66 MILLION IN FY1978 FOR A TOTAL OF \$34.92 MILLION. WE RECOGNIZE THAT 10 PERCENT OF THE \$34.92 MILLION MIGHT NOT BE CONSIDERED A NET INFLOW, SINCE, UNDER THE 1968 ANNUITY AGREEMENT, POLISH REPURCHASE OBLIGATIONS IN EACH YEAR ARE REDUCED BY 10 PERCENT OF THE TOTAL DOLLAR AMOUNT OF THE ANNUITANTS' VOUCHERS. HOWEVER, WE FEEL THIS CONSIDERATION IS MORE THAN OFFSET BY A SIZABLE CONSERVATIVE BIAS IN THE HISTORICAL STRAIGHTLINE TREND WE USED. THE BIAS IS DUE TO THE JANUARY 1974 CHANGES IN THE SOCIAL SECURITY LAW WHICH NOW PROVIDE, FOR THE FIRST TIME, COST OF LIVING INCREASES WHICH WILL SWELL SOCIAL SECURITY BENEFITS AT A FASTER RATE THAN IN EARLIER YEARS. SOCIAL SECURITY RECIPIENTS COM- PRISE 80 PERCENT OF THE OVER 4,280 U.S. ANNUITANTS IN POLAND. THE IMPACT OF THE 1974 CHANGE WAS WELL ILLUSTRATED DURING 1974, WHEN THE NUMBER OF ANNUITANTS ROSE BY 6 PERCENT WHILE THE DOLLAR BENEFIT FLOW ROSE BY 16 PERCENT. WE THEREFORE FEEL THE TOTAL FLOW OF BENEFITS FOR THE JULY 1975-JUNE 1978 PERIOD WILL EASILY REACH OUR ORIGINAL \$34 MILLION FIGURE IN REFTEL B.

4. EMBASSY SHOULD ALSO EMPHASIZE THAT THIS PROJECTION : ASSUMES CONTINUED FAVORABLE EXCHANGE RATE TREATMENT BY GOP FOR U.S. ANNUITANTS. KISSINGER

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